

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA

DOCKET NO. 2018-318-E

In the Matter of	)	<b>REVISED REBUTTAL</b>
	)	<b>TESTIMONY OF KODWO</b>
Application of Duke Energy Progress, LLC for	)	<b>GHARTEY-TAGOE FOR DUKE</b>
Adjustments in Electronic Rate Schedules and	)	<b>ENERGY PROGRESS, LLC</b>
Tariffs	)	

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**I. INTRODUCTION AND PURPOSE**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION.**

**A.** My name is Kodwo Gharthey-Tagoe, and my business address is 40 West Broad Street, Greenville, South Carolina 29601. I am State President – South Carolina for Duke Energy Progress, LLC (“DE Progress” or “Company”) and Duke Energy Carolinas, LLC (“DE Carolinas”), both of which are wholly owned subsidiaries of Duke Energy Corporation (“Duke Energy”).

**Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY AND EXHIBITS IN THIS PROCEEDING?**

**A.** Yes.

**II. PURPOSE AND SCOPE**

**Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

**A.** The purpose of my rebuttal testimony is to provide an overview of the Company’s rebuttal case.

**Q. WHO ARE THE OTHER WITNESSES PROVIDING REBUTTAL TESTIMONY?**

**A.** The Company’s other witnesses filing rebuttal testimony in this case are:

1. **Laura A. Bateman**, Director of Rates & Regulatory Planning, responds to accounting adjustments, ratemaking adjustments, and deferred costs proposed by the Office of Regulatory Staff (“ORS”).

- 1           2.     **Kelvin Henderson**, Senior Vice President of Nuclear Operations,  
2                     discusses the ORS's recommendation to remove the Company's  
3                     request to adjust depreciation and amortization expenses to  
4                     establish a reserve for end of life nuclear costs not captured in  
5                     decommissioning studies. Witness Henderson also responds to the  
6                     recommendation to exclude nuclear inventory from the rate base.
- 7           3.     **John Sullivan**, Director of Corporate Finance and Assistant  
8                     Treasurer, responds to ORS's recommendation for the cost of log-  
9                     term debt and the recommendation to lower the Return on Equity  
10                    ("ROE") requested by the Company.
- 11          4.     **Janice Hager**, President of Janice Hager Consulting, addresses  
12                     intervenor concerns about the use of the minimum system concept  
13                     for allocation of costs in the cost of service study, as well as meter  
14                     costs and uncollectible costs being classified as customer related  
15                     costs.
- 16          5.     **Robert B. Hevert**, Partner of ScottMadden, Inc., responds to the  
17                     ORS's recommendation to reduce the Company's ROE and the  
18                     recommendation to eliminate the return on certain accounting  
19                     deferrals.
- 20          7.     **Retha Hunsicker**, Vice President of Customer Connect-Solutions,  
21                     addresses ORS Witness Payne's recommendation to disallow the  
22                     projected two year average operating and maintenance ("O&M")  
23                     expenses for the Customer Connect Program.

- 1           8.     **Jon F. Kerin**, Vice President Coal Combustion Products  
2                   Operations, Maintenance and Governance, addresses issues related  
3                   to the Company's request to recover its compliance expenses for  
4                   managing coal combustion residuals ("CCR").
- 5           9.     **Dr. Julius (Chip) Wright, Ph.D.**, Managing Partner, J.A. Wright  
6                   & Associates, LLC, also addresses issues related to the Company's  
7                   request to recover its compliance expenses for managing CCR and  
8                   regulatory policy regarding cost recovery, including deferred costs.
- 9           10.    **Steven B. Wheeler**, Pricing and Regulatory Solutions Director,  
10                   details the Company's proposed increase of the Basic Facilities  
11                   Charge, Rate Design Proposal and rate structures, AMI-enabled  
12                   rate designs, Excess Deferred Income Tax Rider ("EDIT"), and the  
13                   Company's Real Time Pricing rates.
- 14          11.    **Donald L. Schneider, Jr.**, General Manager, Advanced Metering  
15                   Infrastructure ("AMI"), responds to ORS's recommendation to  
16                   deny the Company's proposal to implement a Prepaid Advantage  
17                   Pilot program ("Prepaid Advantage" or the "Pilot").
- 18          12.    **Barbara A. Coppola**, Manager of Grid Solutions and Strategy,  
19                   addresses issues raised by ORS regarding litigation and other costs  
20                   specific to a contract that the Company executed with  
21                   CertainTEED Gypsum, NC, Inc ("CertainTEED").
- 22          13.    **Renee Metzler**, Managing Director for Retirement and Health and  
23                   Welfare, responds to ORS proposed disallowances related to

1 compensation and employee engagement related expenses.

2 Metzler explains that the ORS proposed adjustment and  
3 disallowance of expenses and incentive compensation should be  
4 rejected by the Commission. Witness Metzler also describes the  
5 importance of such incentives for the Company's workforce.

6 14. **Lesley Quick**, Vice President, Revenue Services, discusses the  
7 need to include the Company's growth projections in the  
8 Company's proposed adjustment for credit, debit, and Automated  
9 Clearing House ("ACH") payment expenses. Witness Quick also  
10 responds to the request for the Company to publicly file with the  
11 commission monthly data regarding general residential and low-  
12 income customer account information.

13 16. **Julie K. Turner**, Vice President of Carolinas Natural Gas  
14 Generation, responds to the Sierra Club's proposal to disallow  
15 recovery of the Company's investment in Dry Bottom Ash  
16 Systems and the proposal that the commission direct the Company  
17 to perform certain economic analyses.

18 **III. REBUTTAL TESTIMONY**

19 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S**  
20 **REBUTTAL CASE.**

21 **A.** When I consider the positions taken by the ORS, I'm concerned about the  
22 effect of those positions on the Company's financial condition, which  
23 directly affects our ability to provide safe, clean, reliable electricity to our

1 customers. There are many contradictions in the ORS case which concern  
2 me. I explain some of those contradictions in my rebuttal and other  
3 Company witnesses address them as well in their rebuttal. For example,  
4 ORS Witness Dan Witliff departs from the historic practice of allocating  
5 costs between South Carolina and North Carolina given our dual state  
6 structure. Historically, all of the Company's generation costs have been  
7 allocated between the two states, as well as fuel costs and associated costs.  
8 Now, the ORS proposes to disallow certain environmental compliance costs  
9 due to the ORS's view of a North Carolina law. This is a concerning  
10 position, and could result in more costs being allocated to South Carolina,  
11 as explained by Company Witness Dr. Wright. North Carolina generally  
12 pays 70 percent of the Company's costs – if North Carolina took the same  
13 view as South Carolina, there could be a monumental cost shift to customers  
14 in this State.

15 I also see a contradiction in the ORS position that attempts to  
16 devalue and effectively disallow costs the Company has incurred to finance  
17 deferred costs. The ORS takes this position but yet argues that it is allowing  
18 the Company full cost recovery, which is not the case as explained by  
19 Company Witness Bateman and others in this case. This view is even more  
20 contradictory in that ORS Witness Parcell suggests lowering the allowed  
21 return on equity in this case based on such deferrals, but then the ORS  
22 argues to reduce such deferrals. That is not logically consistent. As to the  
23 ROE proposed by the ORS, I'm concerned with their proposal to set such a

1 low ROE, and that in doing so they are ignoring the ROEs of similarly  
2 situated utilities as explained by Witnesses Hevert and Sullivan.

3 I am also concerned about ORS' recommendation to disallow  
4 expenses related to community organizations, employee compensation and  
5 employee recognition and engagement expenses. No one has challenged our  
6 overall salary levels, rather the ORS proposes to disallow compensation  
7 based on how we pay, versus what we pay. Only looking at one piece of  
8 employee compensation, as the ORS has done, ignores the Company's  
9 obligation to be responsive to the market for talent and assure the  
10 competitiveness of the total compensation package, consisting of base  
11 salary, cash based incentives, long-term incentive compensation, retirement  
12 and other benefits. Additionally, we need to keep employees engaged and  
13 trained. Our employee programs enhance and reinforce employee  
14 engagement and/or reduce overall costs. Businesses with more engaged  
15 employees have lower levels of turnover and absenteeism and higher levels  
16 of productivity and customer satisfaction. Using employee engagement  
17 programs as a means of retaining critical skills benefits customers through  
18 higher service levels and lower turnover costs. Experienced, engaged  
19 employees that are incentivized to remain with the Company and work in a  
20 safe manner while emphasizing high service levels benefit our customers.  
21 Company Witness Metzler addresses these topics in more detail.

22 I was pleased to see that no party contested our proposal to eliminate  
23 credit card fees, but I was disappointed that our adjustment to recover the

1 expected uptick in customer subscription was opposed by ORS. Company  
2 Witness Quick addresses this in more detail, but the use of credit and debit  
3 cards for no additional fee is a constant wish of our customers that we are  
4 ready and willing to meet, but we should not be harmed by meeting that  
5 need.

6 Another issue of great concern to me, is the apparent  
7 misunderstanding regarding the Company's Basic Facilities Charge. We  
8 have proposed a cost based charge—that would allocate to each customer  
9 the costs to have the infrastructure available to serve them. Any costs that  
10 are in the Basic Facilities Charge are not included in the variable rate  
11 component of the rate schedule. Parties seem to assume the change in the  
12 Basic Facilities Charge is additive—it is not. Moreover, this charge ensures  
13 that other customers are not subsidizing low usage customers, such as  
14 customers with vacation or second homes. Recovery of all customer related  
15 costs through the Basic Facilities Charge reduces bills from what they  
16 would otherwise be in very hot summer months and very cold winter  
17 months. Nonetheless, as Company Witness Wheeler explains, if the change  
18 is considered too much at one time, we have proposed an alternate approach  
19 with a more gradual increase to the Basic Facilities Charge and to reinstate  
20 the remaining costs back into the variable component as proposed by  
21 Company Witness Pirro.



1   **Q.   DOES YOUR SUMMARY OR TESTIMONY ADDRESS ALL**  
2       **ISSUES IN THIS CASE?**

3   **A.**   No, my testimony is designed to provide an overview of our rebuttal case,  
4       but I have not attempted to capture all subjects in my testimony. Our  
5       witnesses address additional topics on a case by case basis.

6   **Q.   PLEASE ADDRESS THE COMPANY'S RESPONSE TO**  
7       **PROPOSED DISALLOWANCES FOR ENVIRONMENTAL**  
8       **COMPLIANCE COSTS.**

9   **A.**   In its testimony, the ORS dangerously suggests that the Commission should  
10       not approve any costs that the Company incurred to comply with the North  
11       Carolina Coal Ash Management Act ("CAMA") under the apparent theory  
12       that South Carolina customers should only receive the benefits of sharing  
13       power generation assets with North Carolina but pay none of the costs that  
14       the Company has to incur to comply with North Carolina laws and policies.  
15       In direct contradiction to its own position, however, ORS suggests that  
16       North Carolina customers should absolutely pay for the costs that the  
17       Company has to incur to comply with the laws and policies of South  
18       Carolina. The inequity of ORS's position is apparent.

19               Additionally, the ORS is factually incorrect when it suggests that  
20       CAMA has imposed additional expenses on South Carolina customers. To  
21       the contrary, the coal ash beneficiation requirements in CAMA will actually  
22       provide South Carolina customers millions of dollars in net savings, all of  
23       which would have to be refunded to North Carolina customers if the ORS's

1 ill-conceived proposal to reject CAMA is accepted. Moreover, if ORS's  
2 position is taken to its logical conclusion, it would call into question the  
3 continued wisdom of sharing assets and economies of scale across  
4 jurisdictional boundaries, a result that would harm all customers with higher  
5 prices and the costs of uneconomic duplication of assets. These dire  
6 consequences are discussed in more detail by Company Witnesses Kerin  
7 and Wright.

8 Witnesses Kerin and Wright also address the unsubstantiated claim  
9 by SCEUC Witness O'Donnell to disallow 75 percent of these costs. This  
10 proposal is so reckless and unsubstantiated that it should be summarily  
11 rejected by the Commission.

12 **Q. PLEASE ADDRESS THE COMPANY'S RESPONSE TO ORS'S**  
13 **PROPOSED DISALLOWANCES RELATED TO DEFERRED**  
14 **BALANCES.**

15 **A.** The ORS does not raise any prudence allegations regarding the Company's  
16 actions relative to expenses included in deferred balance. ORS simply,  
17 ignores that the timeliness of cost recovery matters and that the Company  
18 must finance the deferred balances. The ORS proposes stretching out  
19 certain deferred costs over extended periods of time without recognizing the  
20 time value of money, the costs to finance the expenditures, or the underlying  
21 necessity of the costs that were incurred. While we are generally not in  
22 dispute over the underlying actions which resulted in the deferred balances,  
23 ORS takes a drastic position on the return on those balances during the

1           deferral period and amortization periods to seemingly suggest that the  
2           Company is profiting from delayed recovery of costs. This is not the case.  
3           The Company's request includes the recovery of its carrying costs or the  
4           time value of money based upon our financing structure. The Company's  
5           financing is made up of both debt and equity, and to ignore the way the  
6           Company finances its costs will cause grave concern to investors as  
7           articulated by Company Witness Hevert. It would also depart from good  
8           regulatory practice as explained by Company Witnesses Wright and  
9           Bateman. I also see a contradiction in ORS's position, because at the same  
10          time the ORS proposes to effectively disallow deferred costs (without any  
11          allegation of imprudence), the ORS cost of equity witness relies upon the  
12          deferrals to arbitrarily attempt to lower the Company's cost of capital. It is  
13          a contradiction to rely upon those deferrals in one witness's  
14          recommendation, but then cut them in another.

15   **Q.   PLEASE ADDRESS THE COMPANY'S REACTION TO THE**  
16   **PROPOSED ROE RECOMMENDED BY ORS WITNESS**  
17   **PARCELL.**

18   **A.**   We are also concerned about the cost of equity capital proposed by ORS.  
19          We agree on capital structure, but we have one correction to the actual  
20          12/31/2018 debt rate as explained by Company Witnesses Sullivan and  
21          Bateman in their rebuttal testimonies. As to the return on equity proposed  
22          by ORS, both Company Witnesses Hevert and Sullivan explain that the  
23          Company competes for capital with other vertically integrated electric

1 utilities, its ROE proposal is generally in line with authorized ROEs  
2 determined by other regulatory commissions, and that the ORS proposal is  
3 significantly lower than those authorized ROEs. This is particularly true  
4 with respect to other vertically integrated electric utilities in the  
5 Southeastern United States, as Witness Sullivan notes. To put the Company  
6 at a disadvantage vis-à-vis its competitors would be a disservice to  
7 customers, and will only cause the cost of capital, particularly equity capital,  
8 to rise in the future as rating agencies and equity analysts reconsider  
9 whether to continue recognizing South Carolina as a jurisdiction with  
10 constructive and credit supportive regulation.

11 **Q. DOES THE COMPANY DISAGREE WITH OTHER**  
12 **DISALLOWANCE RECOMMENDATIONS MADE BY ORS?**

13 **A.** Yes. Another ORS proposal that the Company would like to address is the  
14 ORS's disallowance of the costs to participate in local organizations in the  
15 communities that we serve. Organizations like chambers of commerce,  
16 economic development associations, and tourism organizations all exist to  
17 bring more industry and residents to their region. Duke Energy pays dues  
18 to be a part of these organizations because we believe it is important to  
19 participate in the communities we serve, and to be engaged at a local level  
20 to ensure we understand our customers' needs. This is important in  
21 everyday business, but also in storm restoration and economic development  
22 efforts.

1           For example, our participation in such organizations gets us to the  
2           table early for economic development opportunities which benefits our  
3           customers and the State. This helps with capacity and reliability  
4           discussions, method-of-service decisions, incentive considerations, and  
5           more. These discussions and decisions are all important aspects of  
6           recruiting prospects, securing deals, and announcing wins for our state. Our  
7           contributions to these organizations have a direct link to winning projects  
8           for the state of South Carolina. Some notable wins over the past few years  
9           include: the Schaeffler Group USA expansion and Nestle Bottled Water in  
10          Chesterfield County, the Invista expansion in Kershaw County, and the  
11          Continental Tire expansion in Sumter County. I don't understand why the  
12          ORS believes it is inappropriate for the Company to be a good, involved  
13          corporate citizen in the communities we serve.

14   **Q. PLEASE DESCRIBE THE COMPANY'S OVERARCHING**  
15   **CONCERNS ON EMPLOYEE-RELATED COST**  
16   **DISALLOWANCES PROPOSED BY THE ORS.**

17   **A.** I am also concerned about the ORS disallowing compensation costs and  
18          normal company costs to reward and engage employees. Our customers are  
19          direct beneficiaries of the good work of our employees. No one has argued  
20          that our overall salary levels are at issue, rather the ORS proposes to  
21          disallow compensation based on how we pay, versus what we pay. We need  
22          to keep employees engaged and trained. As explained by Company Witness  
23          Metzler, the purpose of carving out a portion of employees' total

1 compensation and delivering it through variable incentive pay is to  
2 encourage employees to accomplish objectives intended to ensure safe,  
3 reliable, and economical utility service to our customers. This variable  
4 incentive pay also ensures that the employees' business units and Duke  
5 Energy's overall objectives are met. This not only allows Duke Energy to  
6 be competitive in the market, but helps retain the level of talent that the  
7 energy industry demands, in order to best serve customers safely and  
8 efficiently.

9 **Q. PLEASE PROVIDE THE COMPANY'S REACTION TO THE ORS'S**  
10 **AND OTHERS' RECOMMENDATIONS REGARDING THE BASIC**  
11 **FACILITIES CHARGE.**

12 **A.** Another area of concern is the various positions from ORS and intervenors  
13 on the Basic Facilities Charge. We recognize this is a major issue for many  
14 customers and we care very much about our customers. However, this is  
15 also an essential element of cost recovery. For every dollar that is not  
16 recovered through the Basic Facilities Charge, it has to be recovered  
17 through volumetric rates, and that can create cost shifts as well as cause  
18 "spikier" bills in hot summers or cold winters. For example, not having an  
19 appropriate Basic Facilities Charge means that other customers are  
20 subsidizing low usage customers, such as people with vacation homes or  
21 people with second homes elsewhere in the state of South Carolina.  
22 Moreover, the Intervenors have not recognized the benefits of the Basic  
23 Facilities Charge increase - that it will also reduce volumetric swings,

1 making bills in the summer and winter more tolerable. In other words, the  
2 increase in the Basic Facilities Charge also has a smoothing effect on rates  
3 that benefits customers. Notwithstanding this benefit of our proposal, we  
4 appreciate the concerns of other parties. As noted in Witness Wheeler's  
5 rebuttal testimony, the Company's cost of service studies, which were  
6 accepted by the ORS, indicates that these costs are Customer-related costs  
7 and therefore the Basic Facilities Charge should recover them. If the  
8 Commission believes that our proposed increase to the Basic Facilities  
9 Charge is too drastic a change at this time, I would point the Commission  
10 and parties to Witness Wheeler's alternative suggestion of setting the Basic  
11 Facilities Charge rate to 50 percent of the difference between the current  
12 rate and the cost basis, reducing the proposed Basic Facilities Charge to  
13 \$19.03 while shifting the other revenue requirement to the variable  
14 component in a manner consistent with that proposed by ORS.

15 **Q. PLEASE EXPLAIN WHY THE COMPANY'S WITNESSES ARE**  
16 **NOT ADDRESSING THE GRID IMPROVEMENT PLAN IN THEIR**  
17 **REBUTTAL TESTIMONIES.**

18 **A.** The Company has reached an agreement with the ORS to establish a new  
19 and separate docket to review and examine the Grid Improvement Plan for  
20 both: Duke Energy Progress and Duke Energy Carolinas, and no party has  
21 objected to that agreement. We are withdrawing the Grid Improvement  
22 Plan and the treatment of costs incurred from January 1, 2019 from this

1           docket pursuant to the Commission's March 13, 2019 Directive in this  
2           Docket.

3   **Q.    DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

4   **A.    Yes.**